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India

Sugar

Annual

2006

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Report Highlights:
India's MY 2006/07 (October/September) sugar production is forecast to increase by 10 percent to 22.3 million tons (raw value basis) because of anticipated higher sugarcane production. Strong international sugar prices and higher domestic production have turned India into a net sugar exporter in MY 2005/06, with exports estimated at 600,000 tons. Exports in MY 2006/07 are forecast to increase to 1.5 million tons.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1]
[IN]

Table of Contents

SECTION I – SITUATION AND OUTLOOK

Note: All data are on raw value basis unless otherwise noted.

Production

Total centrifugal sugar production in marketing year (MY) 2006/07 is forecast to increase by 10 percent to 22.3 million tons, including 497,000 tons of *khandsari* sugar[1]. *Gur*[2] production is forecast to increase marginally to 5.0 million tons.

Higher cane prices (see Table 7), prompt payments by mills, and favorable planting conditions due to late season (Sept/Oct) rains in 2005, support higher cane planting in MY 2006/07, forecast at 4.4 million hectares vs. 4.1 million hectares last year. Ample irrigation availability and fewer pests and diseases should result in higher yields. Assuming a normal monsoon this summer, MY 2006/07 sugarcane production is forecast at 288 million tons, an increase of 8 percent over last year. With sugar prices expected to rule firm in the upcoming season, most of the additional cane will go into mill sugar production.

Post's MY 2005/06 centrifugal sugar production estimate is raised to 20.3 million tons on increased cane availability and lower-than-anticipated diversion of cane for *gur* production. The late-season rains last year, and the woolly aphid pest nearly under control in Maharashtra, supported a higher MY 2005/06 cane crop, estimated at 266.9 million tons. Mills started operation 2 to 3 weeks earlier than normal, in the second week of October, limiting early season cane diversion towards *gur* production. Strong sugar prices (Table 8) led to higher cane prices, and timely payments to farmers by mills further increased the availability of cane for sugar production. Comparatively low *gur* prices (Table 9) further discouraged cane diversion to gur production.

Industry sources report a marked improvement in the fiscal condition of the Indian sugar industry on account of high sugar prices over the last two years. Investments in the sugar industry have reportedly gone up by over 90 percent to rs. 52 billion ($1.2 billion) in Indian fiscal year 2005/06 (April/March). Most private sugar industry groups are either expanding their capacities or adding new units.

Consumption

Sugar consumption in MY 2006/07 is forecast to increase by over 4 percent to 20.4 million tons on improved domestic supplies and strong demand, fueled by population growth (1.8 percent per year) and strong economic growth (around eight percent per year over past three years). Current sugar prices in major markets range from $417 to $455 per ton. Despite improved domestic supplies, prices are expected to remain firm during MY 2006/07, due to strong domestic and export demand (caused by high international prices). Based on the Indian Sugar Mills Association data, MY 2004/05 consumption has been revised marginally higher to 19.8 million tons.

[1] *Khandsari* sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method.
[2] *Gur*: a crude non-centrifugal sugar in lump form prepared by open-pan evaporation method.

Trade

Due to higher domestic production and firm international sugar prices, India is set to emerge as a net sugar exporter in MY 2005/06 after being an importer for the past two years. Assuming domestic prices remain below international sugar prices, MY 2006/07 exports are forecast at 1.5 million tons. The current price ratio between domestic and international prices all but rules out the possibility of sugar imports into India, including raw sugar imports under the Advance License Scheme (ALS) (see Trade Policy Section).

For the first time in many years, domestic sugar prices are ruling below international sugar prices. Trade sources report that through February 2006, India exported about 148,000 tons of sugar. Most of these exports were to neighboring markets like Pakistan, Bangladesh, and Sri Lanka, at C&F prices ranging between $440 to $480 per ton. Currently, the government restricts export release orders to mills that have imported raw sugar under the ALS. Market sources report that these mills have secured release orders for exports of about 600,000 tons against their export obligations. With international prices well above local prices, there is considerable pressure from traders and mills to open exports to all mills. However, the government will closely monitor domestic market prices while evaluating export proposals. According to market sources, sugar exports during MY 2005/06 could reach 600,000 tons, mostly to neighboring Pakistan, Bangladesh, and Sri Lanka. Due to a flare-up in international sugar prices, imports of raw sugar under the ALS have slowed since the beginning of MY 2005/06, with total imports estimated at 50,000 tons.

Trade Policy

The import duty on raw and refined sugar (tariff code 1701) is 60 percent ad- valorem on the CIF value, plus a countervailing duty (CVD) of rs. 850 ($19.50) per ton. The CVD is in lieu of the local taxes and fees imposed on domestic sugar (central excise tax of rs. 340 ($7.80) per ton; additional excise duty of rs. 370 ($8.50) per ton; and a cess of rs. 140 ($3.22) per ton). Imported sugar is also subject to non-tariff barriers such as the 'levy sugar obligation,' the market quota release system, and other local regulations applicable to domestic sugar (see Section III). Under the ALS, mills are allowed to import raw sugar at a zero duty against a future export commitment. The mills can refine the imported raw sugar and sell it in the domestic market, but must re-export 1.00 ton of refined sugar for every 1.05 tons of raw sugar imported within a specified period, which was extended to two years in September 2004.

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Centrifugal Sugar (raw value basis), PSD

PSD Table							
Country	**India**						
Commodity	**Sugar, Centrifugal**				(1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Beginning Stocks	9070	9070	5730	5535	0	5505	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	14210	14170	18430	20320	0	22325	(1000 MT)
TOTAL Sugar Production	14210	14170	18430	20320	0	22325	(1000 MT)
Raw Imports	2000	2135	1000	**50**	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	2000	2135	1000	**50**	0	0	(1000 MT)
TOTAL SUPPLY	**25280**	**25375**	**25160**	**25905**	**0**	**27830**	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	50	40	200	600	0	1500	(1000 MT)
TOTAL EXPORTS	50	40	200	600	0	1500	(1000 MT)
Human Dom. Consumption	19500	19800	19800	**19800**	0	20400	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	19500	19800	19800	**19800**	0	20400	(1000 MT)
Ending Stocks	5730	5535	5160	**5505**	0	5930	(1000 MT)
TOTAL DISTRIBUTION	**25280**	**25375**	**25160**	**25905**	**0**	**27830**	(1000 MT)

Note: Stocks include only milled sugar, as all *khandsari* sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

Table 2: Commodity, Sugarcane, Centrifugal, PSD

PSD Table							
Country	**India**						
Commodity	**Sugar Cane for Centrifugal**				(1000 HA) (1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Planted	3750	3750	4140	4150	0	4400	(1000 HA)
Area Harvested	3750	3750	4140	4150	0	4400	(1000 HA)
Production	232320	232180	258000	266880	0	288000	(1000 MT)
TOTAL SUPPLY	**232320**	**232180**	**258000**	**266880**	**0**	**288000**	(1000 MT)
Utilization for Sugar	134500	134270	171000	188500	0	203000	(1000 MT)
Utilizatn for Alcohol	97820	97910	87000	78380	0	85000	(1000 MT)
TOTAL UTILIZATION	**232320**	**232180**	**258000**	**266880**	**0**	**288000**	(1000 MT)

Note: Virtually no cane is utilized for alcohol production. 'Utilization for alcohol' includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and khandsari sugar.

Table 3: Sugarcane Area, Production, and Utilization

YEAR	AREA / 1	YIELD / 1	PRODUCTION / 1	SUGAR / 2	KHANDSARI / 3	GUR / 3	SEED / 3
	Mha	MT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	59.99	171.68	68.977	10.481	71.621	20.602
1990/91	3.69	65.39	241.05	122.319	13.175	76.626	28.925
1995/96	4.15	68.02	282.09	174.761	10.000	67.268	30.060
2000/01	4.32	68.49	295.60	176.650	11.000	72.474	35.472
2001/02	4.43	67.09	297.21	180.320	10.500	70.723	35.665
2002/03	4.36	65.91	287.38	194.325	9.500	49.072	34.486
2003/04	4.00	59.40	237.31	132.511	10.000	66.320	28.477
2004/05(R)	3.75	61.91	232.18	124.771	9.500	68.909	29.000
2005/06(R)	4.15	64.31	266.88	180.000	8.500	46.351	32.025
2005/06(F)	4.40	65.45	288.00	195.000	8.000	50.440	34.560

Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture
/2: Indian Sugar Mills Association
/3: FAS/New Delhi estimate

Table 4: Mill Sugar Production by State
(In 100,000 tons crystal weight basis)

State	2003/04	2004/05	2005/06	2006/07
	Final	Final	Revised	Forecast
Andhra Pradesh	8.9	9.8	11.0	12.0
Bihar	2.7	2.5	4.0	4.0
Gujarat	10.7	8.0	12.0	12.5
Haryana	5.8	4.0	4.0	4.5
Karnataka	11.2	10.4	17.0	18.0
Maharashtra	31.8	22.2	52.0	62.0
Punjab	3.9	3.2	3.3	3.5
Tamil Nadu	9.2	11.1	18.0	18.5
Uttar Pradesh	45.5	50.4	57.0	62.0
Others	5.9	5.4	6.7	7.0
Total	135.5	126.9	185.0	204.0

Note: Excludes khandsari sugar, as state break-up is not available.

Source: /1: MY 2003/04 and 2004/05 - Indian Sugar Mills Association
/2: MY 2005/06 and 2006/07 – FAS/New Delhi Estimate

Table 5: Commodity, Centrifugal Sugar, Price Table
(Price in crystal weight basis)

Prices Table			
Country	India		
Commodity	Sugar, Centrifugal		
Prices in	rupees	per uom	Tons
Year	2005	2006	% Change
Jan	18500	20120	9%
Feb	18670	20300	9%
Mar	18150	19750	9%
Apr	18200		
May	17670		
Jun	18150		
Jul	18700		
Aug	18400		
Sep	18500		
Oct	19100		
Nov	18620		
Dec	18470		
Exchange Rate	44.5	Local Currency/US $	
Date of Quote	4/5/2006	MM/DD/YYYY	

Source & Contract Terms: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market

Table 6: Commodity, Gur, Price Table
(Price in actual weight basis)

Prices Table			
Country	India		
Commodity	Non-centrifugal Sugar (GUR)		
Prices in	rupees	per uom	Tons
Year	2005	2006	% Change
Jan	13750	15250	11%
Feb	13750	14250	4%
Mar	13020	15250	17%
Apr	15750		
May	17250		
Jun	17000		
Jul	18120		
Aug	17500		
Sep	21750		
Oct	14250		
Nov	14250		
Dec	1550		
Exchange Rate	44.5	Local Currency/US $	
Date of Quote	4/5/2006	MM/DD/YYYY	

Source & Contract Term: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market.

Table 7: Commodity, Sugarcane, Price Table
(Price in Rs. per ton)

Price Table: Sugarcane Price- MSP and SAP (Rs./MT)			
PRICE	2005/06	2004/05	2003/04
Minimum Support Price (MSP)*	795	745	730
State Advised Price for			
Uttar Pradesh	1150-1200@	1120-1170	1000-1050
Haryana/Punjab	1180-1240	1100-1200	960-1100
Southern States	na	745-1106	730-950

*MSP for 2003/04 and 04/05 linked to a basic recovery rate of 8.5 percent. For every 0.1 percent increase in recovery rate over the 8.5 percent basic recovery rate, an additional premium of rs.8.80 and rs.8.50 per ton was paid in the MY's 2004/05 and 2003/04, respectively. The MSP for 2005/06 is linked to a basic recovery rate of 9.0 percent, and for every 0.1 percent increase in recovery rate over this basic recovery rate, an additional premium of rs.8.80 is to be paid.
@ Private sugar mills in Uttar Pradesh paid an additional incentive of Rs.130 per ton to growers beginning in January 2006.

Exchange Rate:

2003/04 (April/March) 1 US$ = 45.9 Indian Rs.
2004/05 (April/March) 1 US$ = 44.9 Indian Rs.
3. April 4, 2006 1 US$ = 44.5 Indian Rs.

Source: Industry Sources

Table 8: Export Trade Matrix: Centrifugal Sugar

Export Trade Matrix			
Country	India		
Commodity	Sugar, Centrifugal		
Time Period	Oct-Sept	Units:	MT
Exports for:	2005		**2006**
U.S.	0	U.S.	11800
Others		Others	
E.U.	11000	Bangladesh	56000
		Indonesia	42000
		Pakistan	30000
		E.U.	11000
		Sri Lanka	9000
Total for Others	11000		148000
Others not Listed	29000		8200
Grand Total	40000		168000

Note: Export figures for 2006 show exports from October 2005 through February 2006.

Source: Industry Sources

Table 9: Import Trade Matrix: Centrifugal Sugar

Import Trade Matrix			
Country	India		
Commodity	Sugar, Centrifugal		
Time Period	Oct-Sept	Units:	MT
Imports for:	2005		**2006**
U.S.	0	U.S.	0
Others		Others	
Brazil	1987500	Brazil	38500
South Africa	122500		
Australia	25000		
Total for Others	2135000		38500
Others not Listed	0		11500
Grand Total	2135000		50000

Note: Import figures for 2006 show imports from October 2005 through February 2006.
Source: Industry Sources

SECTION III – NARRATIVE ON PRODUCTION POLICY

Sugarcane Production and Pricing

The Government of India (GOI) works to raise sugar cane yields through the development and transfer of new varieties and improved production technologies to growers. The Indian Council of Agricultural Research (ICAR) conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies further support these efforts at the regional and state levels.

The GOI establishes a minimum support price (MSP) for sugarcane every year. Some state governments further augment the MSP, typically by 20-25 percent, due to political compulsions. Sugar mills are obliged to pay this "state advised price" to sugarcane farmers.

Sugar Production

The GOI levies a fee of rs. 140 ($3.20) per ton of sugar produced by mills to fund a sugarcane development fund (SDF), which is used to support research, extension, and technological improvement activities in the sugar sector. In recent years, this fund was also used to support sugar buffer-stocks operations, provide a transport subsidy for sugar exports, and give an interest subsidy on loans for the installation of power generation and ethanol production plants.

In March 2005, the GOI announced a special financial relief package to revive the sugar industry. The National Bank for Agriculture and Rural Development was to provide a two-year financial package to the many "sick" sugar units at subsidized interest rates. Under the scheme, mills were also allowed to renegotiate their old, high-interest bearing, loans.

Sugar Marketing

Indian sugar mills are required to supply ten percent of their production to the government as 'levy sugar' at below-market prices, which the government distributes through the public distribution system (PDS) to its below-poverty line clientele at subsidized rates. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, the sales of free-sale sugar and levy sugar are subject to periodic quotas established by the government, designed to maintain price stability in the market. The government allocates each mill a quarterly fixed quota of levy-sugar and free-sale sugar, which must be sold during that quarter.

The GOI plans to completely deregulate the existing sugar marketing system in the near future by buying sugar from the open market for its subsidized PDS program, and by allowing futures trading to stabilize market prices.

Ethanol Program

Market sources report very little production of ethanol during the current marketing year, due to high prices of molasses from which ethanol in India is made. In January 2003, the GOI launched a molasses and sugarcane–based ethanol production program in nine states to augment domestic fuel supplies. The petroleum companies (which are all government-affiliated) were asked to blend ethanol (5 percent), supplied by mills, with gasoline.

The Petroleum Ministry announced plans to supply ethanol-blended gasoline across the country beginning in the next sugar marketing season (2006/07). For 5 percent blending, this would require about 500,000 kiloliters of ethanol. Most mills prefer to supply molasses directly to the alcohol industry due to better returns.